

# HOUSE BILL REPORT

## HB 1022

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to providing tax incentives for the construction of tsunami resistant structures.

**Brief Description:** Providing tax incentives for the construction of tsunami resistant structures.

**Sponsors:** Representatives Orcutt, Buck, Kessler, Takko and Blake.

**Brief History:**

**Committee Activity:**

Finance: 1/28/05, 3/7/05 [DPS].

**Brief Summary of Substitute Bill**

- Exempts the construction of tsunami-resistant structures from the retail sales and use tax.
- Exempts income received from the engineering, planning, design, or construction of tsunami-resistant structures.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Conway, Ericksen, Hasegawa and Santos.

**Staff:** Mark Matteson (786-7145).

**Background:**

*Tsunamis and tsunami preparedness.* A tsunami is a series of waves with a long wavelength and time between crests. Tsunamis are generated by any large, impulsive displacement of the sea level; this displacement may be caused by an earthquake, volcanic activity, landslides into the ocean, or meteorite impacts. The National Weather Service (NWS) of the National Oceanic and Atmospheric Administration (NOAA) estimates that on average there are two tsunamis per year somewhere in the world which cause damage near the source. The Indian Ocean tsunami that struck south and southeast Asia and east Africa on December 26, 2004, was caused by a magnitude 9.0 earthquake and has resulted in an estimated 160,000 deaths.

The NOAA oversees the National Tsunami Hazard Mitigation Program, which is designed to reduce the impacts of tsunamis through warning guidance, hazard assessments, and mitigation. As part of the program, the agency is collaborating with the Federal Emergency Management Agency and a number of other federal, state, and local agencies for the purpose of developing guidance that would allow local governments to develop standards for the construction of structures that could withstand the simultaneous forces of both an earthquake and a tsunami.

The cities of Long Beach, Ocean Shores, and the Quinault Indian Nation are Washington communities that participate in the NWS TsunamiReady program. Under this program, communities are designated as TsunamiReady communities if they meet a number of requirements relating to communication coordination, NWS warning reception and dissemination, hydrometeorological monitoring; and community preparedness. An aspect of the community preparedness requirement is the designation or establishment of a tsunami shelter or area in a safe zone.

*Business and Occupation Tax.* Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

*Retail sales and use tax.* The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent. Currently, local rates levied, range from 0.5 percent to 2.4 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

All items or services sold or acquired at retail are subject to the retail sales and use taxes unless specifically exempted otherwise. Such exemptions include the charges for labor and services provided in the construction of structures for the federal government or a local housing authority.

**Summary of Substitute Bill:**

Incentives are provided for the construction of tsunami-resistant structures in coastal counties. A tsunami-resistant structure is a building provided for the purpose of providing emergency shelter in the event of a tsunami. The structure must meet standards adopted by a local government based on federal guidance relating to building construction for the purpose of withstanding earthquakes and tsunamis simultaneously, and the standards must specifically apply to a potential earthquake along the Cascadia subduction zone of magnitude 9.0 or higher and a resulting tsunami. If a structure is to be constructed before the issuance of the guidance, the structure must be certified by a professionally licensed and appropriately qualified engineer to withstand a potential earthquake along the Cascadia subduction zone of magnitude 9.0 or higher and a resulting tsunami. The structure may be used as a training site for emergency responders.

Income received by persons who provide engineering, planning, design, or construction services relating to the construction of tsunami-resistant structures is exempt from the business and occupation tax.

The construction of tsunami-resistant structures, including materials, and labor and services, is exempt from the retail sales and use taxes.

**Substitute Bill Compared to Original Bill:**

Replaces the definition of tsunami resistant structure to provide more specificity with respect to the federal guidance to be issued under the national program. Adds provisions that allow for the potential construction of a tsunami resistant structure before the issuance of the federal guidance.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** A constituent called me after the Indian Ocean tsunami concerned because he spends a lot of time on the coast. We saw what happened in Phuket and other areas and many of us know someone that may have been affected. It's certainly possible that this could happen here on our coast. We have evidence that tsunamis have occurred in past centuries resulting from earthquakes in the Cascadia subduction zone off the coast of Washington. The experts calculate that if that happened, there would be 15 minutes to evacuate. And if you are familiar with the Long Beach peninsula, that would be pretty difficult, especially if bridges are down or there are road obstructions. The purpose of this bill is to construct a place where people could go in the event of a tsunami. This is emerging technology but it is important to provide some incentives to encourage further and accelerated efforts in this area.

**Testimony Against:** None.

**Persons Testifying:** Representative Orcutt, prime sponsor.

**Persons Signed In To Testify But Not Testifying:** None.